Power Law Lobbying*

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Abstract

In this study, we document that the distribution of lobbying expenditures across firms is well approximated by a statistical power law. The baseline functional form yields R^2 values of 82 percent and a minor modification in the spirit of Gabaix and Ibragimov (2008) yields values of 97 percent. This relationship is stable over our 1998 – 2015 time period and holds across industries as well. We then explore the implications of this in a decomposition exercise, showing that 98 percent of the growth in annual firm level lobbying expenditures comes from idiosyncratic firm specific factors as opposed to industry-year effects.

JEL Classification: D72, D73, D78, F22, F23, J61, O31, O38
Keywords: lobbying, power law, firm political activity.

1   Introduction

Lobbying has to do with the passage of laws and the use of political power. In this study, however, we show that the distribution of lobbying expenditures across firms follows a power law distribution. There are a few firms that account for a very large amount of lobbying expenditures and a very large number of firms that spend very little. Similar findings in fields as diverse as biology, geography, and economics have had substantial influence on our understanding of a variety of issues. For example, Gabaix (2011) shows that although there are than 5 million firms in the US economy, the largest 100 account for about a third of the business cycle. A long literature exists on the effects of special interests on a variety of outcomes. A systematic investigation of what the distribution of expenditures across firms looks like, and what the implications of this are in a comprehensive way, has not been explored. In this study we intend to make a similar contribution to our understanding of the political process, to better understand the role of special interests and the determinants of policy outcomes in representative democracies.

While there exists a long literature on how lobbying and campaign contributions affect policy outcomes, we understand the upstream question of what makes firms lobby in the first place much less. This is important for positive questions such as understanding how policy gets made, as well as normative questions such as understanding what the optimal regulations are on lobbying behavior. To add to this, what work has been done has been predominantly qualitative in nature and systematic empirical evidence has been lacking. Some ground is covered here by Kerr, Lincoln, and Mishra (2015), as well Zaourak (2020) and others, but our work intends to help better understand the empirical regularities of firms' lobbying. This is a topic that is of great interest to political scientists, but it is also of interest to a wide variety of economists, such as trade economists and economists who try to understand the sources of macroeconomic inefficiencies. Indeed, policy choices in the last few years have led trade economists to renew their interest in political economy and the causes and consequences of trade protectionism, such as Fajgelbaum, Goldberg, Kennedy, and Khandelwal (2020).

We begin by documenting a number of new stylized facts about lobbying over 1998-2015. As found in earlier samples, lobbying firms are larger by almost any metric, including sales, employment, and assets. As with firm size, lobbying expenditures are quite skewed and this relationship holds over time as well as across industries. Lobbying expenditures grew roughly threefold over the course of the sample, peaking in 2010 and then leveling off. Those who were lobbying at the beginning of the sample drove roughly half of this increase over time and more generally drove year to year changes in aggregate lobbying expenditures. Average outlays are also roughly five times as large as median ones and this lopsided relationship holds across industries as well.

Having explored the skewness of the distribution of lobbying expenditures descriptively, we then move on to estimating the power law relationship. A simple approach in line with the prior literature in other fields yields R^2 values of roughly 82 percent. When making a simple modification in the spirit of Gabaix and Ibragimov (2008), R^2 values jump to 97 percent. This is true both with and without the adjustments to the estimation approach that were advocated by Gabaix and Ibragimov (2011). When breaking the results out by industry, we come to similar conclusions both in terms of the power law exponent as well as the predictive power of both of these estimation approaches. We additionally find a similar set of results when estimating the power law relationship cross sectionally year by year. This is true both in terms of the estimated coefficients as well as the explanatory power of the regression. This is perhaps surprising, as many things have changed dramatically in the lobbying industry over time.

We then turn to exploring the implications of this relationship. Since firm size follows a power law distribution, we show that this generates a strong correlation between size and lobbying expenditures. This holds true even in a panel context with firm and year fixed effects along with a set of time varying controls.

These estimations update prior results from other studies that have documented this correlation to more recent years and suggest that the fact that both of these variables follow the same type of distribution may in act be driving the correlation that we see in the data. We next turn to a decomposition exercise in which we consider how much time varying industry level factors affect firms' lobbying behavior relative to idiosyncratic decisions by the firms themselves. Industry level effects could have large effects, for example, if what matters most for lobbying are events or proposed policy changes that affect a wide range of businesses with similar interests. We find that idiosyncratic firm specific factors drive 98 percent of the growth in firm level lobbying expenditures, suggesting that these are what really matter for determining firm behavior. This may be the case, for example, if the policy changes that firms lobby for are narrowly focused on individual business' needs. It also suggests that aggregate lobbying expenditures are driven by shocks to individual firms, which is important if the distribution of lobbying expenditures follows a power law. This is because shocks to the largest and most politically active firms are what are important for aggregate fluctuations.

Our findings have a number of implications. First, along with prior results that show that lobbying status is quite stable over time, it is clear that the vast majority of lobbying expenditures comes from a very small number of firms and organizations. That has a number of implications for policies designed to better regulate the attempts of special interest groups to disproportionately impact policy in a welfare reducing way. Second, taking into account this skewness and distribution could be quite useful in modeling the determinants of lobbying, as well as its impacts on policy and policy outcomes. Our results confirm arguments made in the public debate about the importance of large corporations driving policy outcomes and more generally shed light on the long and distinguished prior literature on special interest politics and its influence on policy outcomes. Lastly, a discussion of work on how these facts influence electoral strategy, given what is and is not feasible in terms of policy proposals, will be useful for further understanding the interplay between the structure of special interest expenditures and policy outcomes.

The rest of the paper is organized as follows. Section 2 describes the current state of the literature to date and Section 3 describes our data and documents a series of new stylized facts on firms' lobbying behavior. In Section 4, we consider the distribution of lobbying expenditures across firms and demonstrate that it is well approximated by a power law distribution. Section 5 considers the implications of this with regards to the relationship between lobbying and firm size and the importance of firm-specific relative to industry level factors in driving lobbying growth. Section 6 concludes.

2   Literature Review

There is an expansive literature on the skewness of the distribution of firm lobbying expenditures and campaign contributions. While a majority of the past literature is focused on contributions through political action committees (PACs), Baumgartner and Leech (2001) were one of the first to present the distribution of lobbying activities in Washington, DC amongst interest groups. Utilizing data from the 1995 Lobbying Disclosure Act, the authors find that businesses dominate the interest-group system. As a whole, interest group lobbying occurs in a tiny fraction of issues: the bottom 50 percent of cases incur less than 3 percent of total interest group activity while the top 10 percent of cases attract more than 60 percent of lobbying activity. Then, when presenting the data by different group types (businesses, nonprofits, unions, etc.), the authors find that, while businesses participate in all lobbying activities, corporations are predominant where the fewest interest groups are active. In a similar study, Baumgartner and Leech (2000) find that four out of a 142 sample size of issues attracted more than 500 lobbyists and accounted for over a quarter of the lobbyists in the sample. Overall, both studies highlight the skewness of firm lobbying expenditures across multiple fronts.

Milyo, Primo, and Groseclose (2000) similarly find a tremendous similarly find a tremendous skewness in the distribution of corporate political action committee (PAC) campaign contributions. Around 70 percent of corporate PACs give less than $50,000 while less than 1 percent of corporate PACs give more than $1,000,000, highlighting the skewed nature of corporate campaign contributions as well. Even then, the authors put PAC contributions into perspective when finding that campaign contribution amounts are trivial when compared to lobbying expenditures. Milyo et. al (2000) observe that firms affiliated with the largest PACs in the tobacco, pharmaceutical, telephone utilities, defense aerospace, and computers industries, spend exponentially more on lobbying expenditures than PAC money. Ultimately, the small number of firms that account for a majority of campaign contributions also account for a majority of lobbying expenditures amongst firms in the same industry. Similarly, de Figueiredo (2004) finds that firm lobbying expenditures represent around 85 percent of total interest group lobbying expenditures at the U.S. federal and state levels while Drope and Hansen (2006) find that, on average, large and small firm lobbying expenditures also constitute around 85 percent of a firm's political expenditures. In 2012, these patterns continued to exist: organized interest groups spent $3.5 billion to lobby the federal government while PACs spent approximately $1.55 billion on campaign contributions (de Figueiredo and Richtler 2014). In a similar vein, recent work also found that political expenditures are skewed towards lobbying activity. Chen, Parsley, and Yang (2015) find that lobbying accounts for the majority of all corporate political spending types. Lobbying is 22 times greater than PAC contributions and around 20 times greater than soft money contributions. Kim (2008) also finds that there is large variation in the level of firms' political spending with lobbying expenditures generally exceeding campaign contributions. The author focuses the analysis on a sample of 957 firms and observes that only 66 corporations contribute more than $2 million in lobbying expenditures whereas 319 firms contributed less than $500,000 in lobbying expenditures. Bombardini and Trebbi (2012) extends this analysis to the 2005-2006 congressional cycle, where lobbying expenditures were over 2.59 billion dollars and campaign contributions totaled $345 million for the Senate and House. Lobbying expenditures are substantially larger and the vast majority of them are undertaken by firms and trade associations.

Clearly, a lot of work has been done to understand the distribution of firm lobbying expenditures amongst interest group contributions and how lobbying compares to PAC contributions. However, Ansolebehere, Snyder, and Tripathi (2002) reconcile the two different types of firm political activity. The authors find that corporations and trade associations make up a majority of interest group expenditures and that 92 percent of interest group contributions consists of lobbying expenditures. More importantly, groups that lobby and contribute through PACs account for 70 percent of total interest group money. Thus, not only are lobbying expenditures and PAC contributions highly skewed, but the entirety of groups is skewed towards those that lobby and contribute through PACs simultaneously.

Some researchers sought to understand corporate political activity beyond lobbying expenditures and PAC contributions: corporate political donations. In a dataset consisting of companies that donate on the federal level from 1991 to 2004, Aggarwal, Meschke, and Wang (2012) find a skewness that exists among political donations. Even when examining the distribution of corporate donations (PAC, soft money, and individual money donations), the mean amount of donations is all higher than the median amount. Unsal, Hassan, and Zirek (2016) focus on donations by company CEO's and explores their connection with firm lobbying expenditures. Annual CEO donations averaged around $2,600 with a large standard deviation of around $15,000. Then, when looking at the lobbying expenditures across industries, the researchers find that average lobbying expenditures are focused in specific industries. For example, the telephone and utilities industries were the only industries to contribute more than $1 million out of the samples. The past literature on PAC contributions make up the most of corporate political activity and there is a growing amount of work on firm lobbying expenditures, but corporate political donations is another intersection between business and politics. They exhibit a similar behavior in terms of the distribution of political donations for firms.

Other work has also been done to explain the skewness of lobbying activity in the context of multi-state registration within the U.S. Out of a sample of 21,098 distinct organizations from Wolak et. al (2002), the mean number of states in which a business was registered to lobby in was only 1.635 states. The distribution is skewed, with a very small number of organizations registered to lobby in multiple states. In other words a vast majority of organizations lobby in only a single state. Welsh and Young (2017) furthers this state level research and shows that state lobbying expenditures are concentrated among a small number of very large companies. Comprised of the 100 largest companies in the SP 500, and in the six states that have the most corporate lobbying from 2012 to 2015, the dataset's four largest lobbying spenders (ATT, Altria, Chevron, and Verizon) accounted for 28 percent of the sample's lobbying expenditures. Furthermore, the 100 largest companies consistently spent more on federal lobbying expenditures than the 400 other SP 500 companies across the four year time period as well ($490 million vs. $363 million in 2015).

Most of past literature focuses on lobbying and political activity of firms within the U.S. However, there has also been some work done on international corporate lobbying. Mitchell (1995) develops this aspect of research by examining the foreign corporate political activity from U.S. subsidiaries. Foreign PAC contributions make up about 5.6 percent of total corporate PAC contributions in 1987-1988, highlighting its minimal stake within overall corporate PAC contributions. As expected, a high amount of corporate PAC contributions are concentrated within the U.S. Even when analysis was done on the distribution of foreign-owned PACs, corporate PAC activity was largely focused in a small number of countries (17 countries had single digit PACs whereas the United Kingdom had 36 PACs alone). Building upon this work, Hafner-Burton, Kousser, and Victor (2015) find that foreign corporate lobbying is highly skewed within the firms' respective industries. Of the 8,186 publically traded firms in the sample, only 8 percent lobbied on foreign policy. The lobbying companies tended to be the largest of concentrated industries. Interestingly, the researchers also find that the firms lobbying are skewed to the ideologically conservative side. Others have also found an existing skewness in lobbying expenditure distributions in other countries, exhibiting similar patterns and characteristics as those of the United States. Bernhagen and Trani (2012) conduct a similar study to that of Baumgartner and Leech (2001) in the United Kingdom. They find that the representation around policy proposals is similar to that of the U.S. interest grouops, with businesses as the dominant organizations lobbying issues. The research also exemplifies the same skewed distribution of organized interest across a sample of policy proposals, with a few number of proposals lobbied by a large number of interest-groups. Drawing from the Transparency Register, Dellis and Sondermann (2017) extend this literature to the European Union as a whole to show a similar observation. Here, they study a different sample of private sector lobbying firms. The average lobbying expenditures is 265,000 euros with 70 percent of firms spending less than 100,000 euros. This describes a highly skewed population of lobbying expenditures in the European Union, mirroring the skewed behavior of lobbying expenditures amongst firms in the U.S.

There has been an increasing body of work on firm lobbying expenditures, but more often than not, it has only explored the distribution of lobbying expenditures when examining its relation to other topics. When examining how firms lobby the Federal Communications Commission (FCC), de Figueiredo and Tiller (2004) found that the distribution of lobbying for large and small firms is skewed towards the firms with limited number of lobbying contacts at the FCC. Kim (2017) studied the relationship between firm level lobbying and trade liberalization. In doing so, the writer found a highly skewed distribution between lobbying frequency with firm productivity as well as product differentiation. Firms with lower productivity levels and highly differentiated products have a higher frequency of lobbying. Yu and Yu (2011) sought to explore the intersection between corporate lobbying and fraudulent firms. Indirectly, the paper's summary statistics highlighted a couple of observations on firm lobbying distribution. In their sample of 2,053 firm-year observations from 1998 to 2005, the average annual lobbying expenditure is around $2 million with a standard deviation of around $2.3 million. Not only does this exhibit the skewed nature of firm lobbying expenditures,

but the paper also found that firms, lobbying for more than 6 years, accounted for more than 60 percent of the total lobbying activity. Kong, Radhakrishnan, and Tsang (2013) sought to understand the link between lobbying activities and financial reporting quality and found that their 9,664 firm-year observations from 2001 to 2012 produced a skewed distribution of lobbying expenditures. Among the firms that engaged in lobbying activities, a few firms reported large lobbying expenditures. In a paper that sought to understand corporate lobbying and its effect on a firm's tax rate, Qureshi (2013) also found that lobbying expenditures for 740 firms across 9 years resembles a highly skewed behavior.

Other work has also done with focuses on corporate lobbying within a certain sector or industry. Amongst firms that lobbied on climate-related bills and issues between 2006 and 2009, the distribution of lobbying for corporations is also skewed (Delmas, Lim, and Nairn-Birch 2016). The mean for climate lobbying expenditures is approximately \$2.3 million with a high standard deviation of approximately \$3.8 million. A similar observation is made in a sample of 559 firms and associations in the energy sector during 2007-2008 (Kang 2015). The distribution of firm lobbying expenditures is very skewed with an average lobbying expenditure of over \$1,087,000 and median amount of \$160,000 within the sector. Furthermore, the top 10 percent of firms in the energy sector accounted for 76.1 percent of the total lobbying expenditures by the energy sector. Lambert (2018) conducts a similar analysis on the financial sector and out of a sample of 239 banks from 2008 to 2012, the average amount of lobbying expenditures was about \$1,500,000 with a median of about \$400,000. Regardless of the sector focused on, related literature seems to all come to a similar result in finding the skewness on the distribution of firm lobbying expenditures within a firm's industry. The literature that contributes to the topic at hand has also been done on event specific data. For instance, Adelino and Dinc (2014) examine how the Stimulus Act, which allowed more stimulus packages to businesses during the financial crisis around 2007-2008, is related to firm lobbying. The research differentiates the entire sample of companies used and the firms that have positive lobbying expenses for at least one quarter between 2007 and the first half of 2009. In both samples, the distribution of lobbying firms is skewed. The mean lobbying expenditures for the full sample of firms (\$450,000) and the active lobbyers during the financial crisis (\$750,000) were both higher than the median amounts (\$45,000 and \$280,000 respectively) with similarly large standard deviations (\$1 million). There is clearly a skewed distribution that existed both during the financial crisis and in general. Another study was done to explore how Citizens United v. Federal Election Commission, which allowed PACs to accept an unlimited amount from corporations and others, affected corporate political spending during the 2012 presidential elections (Hansen, Rocca, and Ortiz 2015). While the ruling did little to alter the world's leading corporations in terms of political spending, the analysis also demonstrates a tremendous skewness to corporate PAC expenditures. Even excluding firms without PACs, the spending mean was \$526,000, more than double the median value of \$254,000. Even judicial rulings and governmental acts, that should have influential implications to corporate political spending, left the distribution of firm lobbying expenditures generally unchanged and skewed.

A lot of the literature that has been discussed touched on aggregated and organized data by industry, with many more researchers that choose to analyze corporate political activity by industry. Within the Fortune 500 firms in 1980, industries like pharmaceuticals, rubber and plastic products, and motor vehicles have a high level of firms that formed PACs while other industries, like apparel, office equipment, and toys render lower levels of PAC formation (Andres 1985). Minnick and Noga (2017) examine how industry political spending influences tax management among SP 500 firms. When looking at the breakdown of political spending, Minnick and Noga (2017) find that individual firm political spending is concentrated in certain industries. Whether it is individual firm lobbying expenditures or trade group lobbying, the distribution is highly skewed. The firm lobbying expenditures average is almost \$900,000 with a median of \$176,000 while trade group lobbying has a mean of more than \$4 million and very low median.

Ultimately, the literature done on the distribution of firm lobbying expenditures exhibiting a skewed

behavior is largely conclusive. Most, if not all, of papers that touch on the distribution of corporate political spending find that the distribution is highly skewed in any case. While there appears to be an extensive literature on the distribution of lobbying, most research is conducted indirectly on this topic. The bulk of results come from parts of papers that are rarely the focus of the study itself. Data results, which show a large discrepancy between the mean and median or standard deviation of lobbying expenditures, and a limited part of discussions, where researchers merely acknowledge the existence of this skewness, are the avenues in which one would come to understand the skewness of lobbying expenditures. As this literature review suggests, there is not a lot of work that focuses on the distribution of lobbying expenditures specifically. Even when researchers decide to focus on the distribution of corporate political activity, many tend to focus on either the distribution within interest groups, as opposed to the distribution among firms, or other methods of corporate political activity (PAC formation or corporate donations). Thus, there is a gap in related literature that does not conclusively confirm the skewed distribution of firm lobbying expenditures.

3   Data and Stylized Facts

3.1   Data

Our data come from a number of sources. The main information on lobbying comes from the website of the Center for Responsive Politics (CRP). This non-profit organization collects and maintains information obtained from the reports of registered lobbyists, which are required to be filled out due to the Lobbying Disclosure Act of 1995. In each of these documents, which have a standard format, each lobbyist is required to report how much he or she was paid from each organization and the general issues on which the lobbyist worked on. These are maintained as portable document titles by the Senate Office of Public Records (SOPR). The information is then scraped from the files that are posted on the website of the SOPR and are cleaned and stored by this organization. Our main data on firm operations comes from Compustat. These include information on the revenues, employment, research and development (R&D) expenditures, and similar of publicly traded firms in the United States. We limit the sample to firms that are headquartered and incorporated in the US and that have full information on revenues. In order to abstract from entry and exit on stock exchanges, we consider a balanced panel, which leaves us with 1,711 firms and over 30k observations. As is the convention in the literature using this data, we impute a value of zero if R&D expenditures are missing. These firms have large incentives to report these expenses due to the Research & Experimentation Tax Credit. As a result, most papers, like ours, make the assumption that if the firm does not report R&D expenditures on its balance sheet, it did not engage in significant activities in this regard.

The construction of the bridge between Compustat and the data from the Center for Responsive Politics was done in several stages. Since the records are scraped from PDFs, one challenge with the data is that the names of the organization compensating these lobbyists may differ from report to report. As a result, in the data, there are often multiple names for each firm and organization. In the first stage we used software from OpenRefine.org, to identify potential matches between each firm name in Compustat and several names in the lobbying data. This software was originally developed by Google LLC and then was spun off as open source software that is freely available online. This approach was used by Zaourak (2020) for a similar bridge construction. The threshold level of certainty in the OpenRefine match was set to 80 percent. We found that below 80 percent there were a large number of false positives but that at 80 percent the match was of a good enough quality to use in this first step. In the next step a research assistant was tasked with going through the names in the lobbying data set and manually identifying potential matches to each firm in Compustat. This was necessary as the name matching procedure in OpenRefine was not comprehensive

enough and judgement was needed to improve the set of potential matches. It was clear that the algorithm missed a number of important potential matches. For example, the software algorithm would not identify the firm names "IBM" and "International Business Machines Corporation" as potential matches, whereas a research assistant doing things by hand would easily be able to identify this as a potential match. We then merged all of the potential matches together and then had a research assistant go through each potential match and determine whether the names in fact corresponded to the same firm. This was a labor intensive process and involved consulting a variety of sources of information on businesses, such as Hoover's.

In constructing our industry-level estimates, we take several steps in order to group similar firms together and to allow for sufficiently large sample sizes to make industry-level estimations feasible. In particular, we group the four firms in agriculture in the one digit NAICS category one with those in NAICS category two in the Mining and Utilities industries. We also group together firms with NAICS codes 6 – 8 in the Education, Health, Arts, Accommodation, and other services sectors. Lastly, conglomerate firms designated with the two digit NAICS code 99 are grouped with manufacturing firms, as that is often the industry where the firm is primarily focused. Examples include General Electric and Icahn Enterprises.

3.2 Stylized Facts

In Table 1 we consider the basic characteristics of our sample. In column (1) we consider all firms together and then in columns (2) – (3) we break out the results across firms that do and do not lobby. Lobbying firms are larger than others are across nearly every single metric including sales, employment and assets. They also pay substantially more in federal taxes, are more likely to engage in research and development, and even conditional on doing R&D tend to spend more money on it. Reflecting the fact that our panel focuses on businesses that were publicly listed in every year 1998 – 2015, these firms tend to be large, with 4.5 billion dollars in annual total sales, 14 thousand employees, and 11.7 billion dollars in total assets. Based on the relationship between lobbying and firm size that we will study later on in Section 5, our firms are also substantially more likely to lobby than other businesses. Roughly a quarter of firms in our sample lobby each year and nearly half do so in at least one year of the sample, with 935 out of the 1,711 engaging in this type of activity. Consistent with a skewed distribution, median lobbying expenditures are roughly one fifth the size of average expenditures.

In Table 2 we list the top ten firms in terms of the total amount that each firm spent over the course of our sample period. There is a wide range of types of firms represented, from defense contractors, to telecommunications firms, to pharmaceutical firms. Evidence of skewness is present even here at the top of the distribution, with the leading firm, General Electric, spending more than twice the amount of the tenth ranked firm, the Altria Group. The appendix provides this list for every year from 1998 to 2015 and demonstrates that there is a good amount of stability at the top of the distribution. General Electric, for example, appears in the top ten list every year over the 18 year sample period.

In Figure 1, we extend this analysis and graph the total expenditures of the top 150 lobbying firms over the sample period. Indeed, more than 100 out of the top 150 firms spend less than 1/10th of what General Electric spends. This skewness provides some of our first evidence that the distribution might follow a statistical power law. Consistent with this evidence, in Table 1 we found that mean lobbying expenditures are roughly 5 times that of median expenditures. In Figure 2 we demonstrate that this holds across industries as well. The ratio does vary, however, from a low of 2.2 in services to 6.2 in manufacturing. The figure for manufacturing is especially important as manufacturing firms account for roughly 40 percent of our sample and a similar percentage of publicly traded firms more generally.

In Figure 3 we explore the implications of this skewness for the behavior of aggregate expenditures over time. In each year, we depict the total amount spent by each entering cohort of firms over time. In 1999, for

Table 1: Firm Characteristics

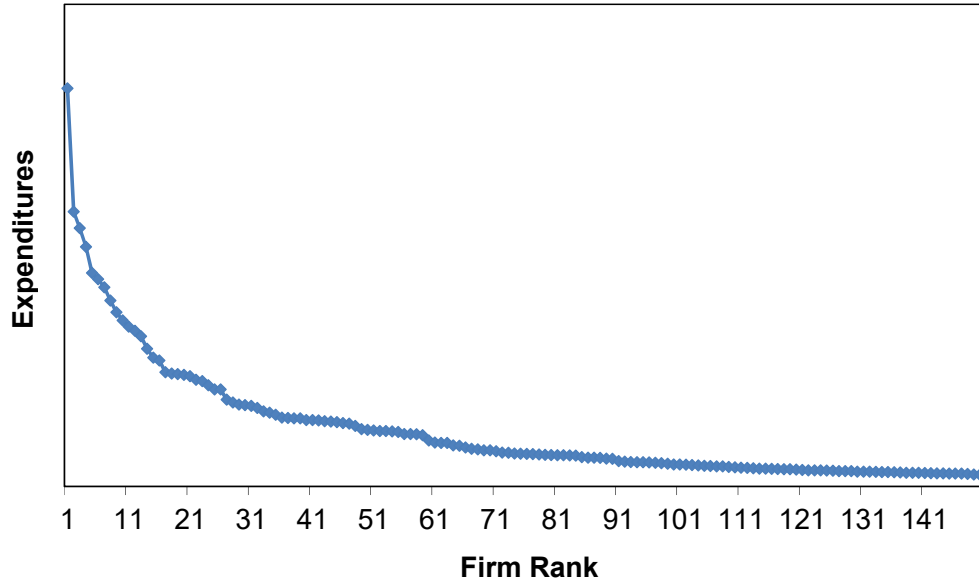|	All Firms	Non-Lobbying Firms	Lobbying Firms
Sales ($m)	4,516	1,045	8,697
	17,668	3,593	25,314
Employment (k)	14	4	27
	60	11	87
Assets ($m)	11,711	2,320	23,027
	81,628	9,878	119,751
Federal Taxes ($m)	78	19	143
	364	81	511
Operating Income Before Depreciation ($m)	854	160	1,652
	3,588	631	5,104
Inventories ($m)	726	106	1,477
	9,305	408	13,802
Liabilities ($m)	9,162	1,725	18,130
	73,124	8,808	107,492
Share of Firms Engaging in R&D (%)	35	30	42
Annual R&D Expenditures ($m)	239	22	426
Median Lobbying Expenditures ($m)	397,290		
Average Lobbying Expenditures ($m)	1,915,630		
Share of Firms that Lobby in a Given Year (%)	23.6		
Share of Firms that Ever Lobby (%)	45.4		
Number of Firms	1,711	776	
Observations	30,798	13,968	

Notes: The sample includes 1,711 firms over 1998-2015 for a total of 30,798 observations. Annual R&D expenditures figures are only for firms that perform some R&D. Median and average lobbying expenditure figures are similarly only for firms that lobby. Standard deviations are denoted in parentheses.

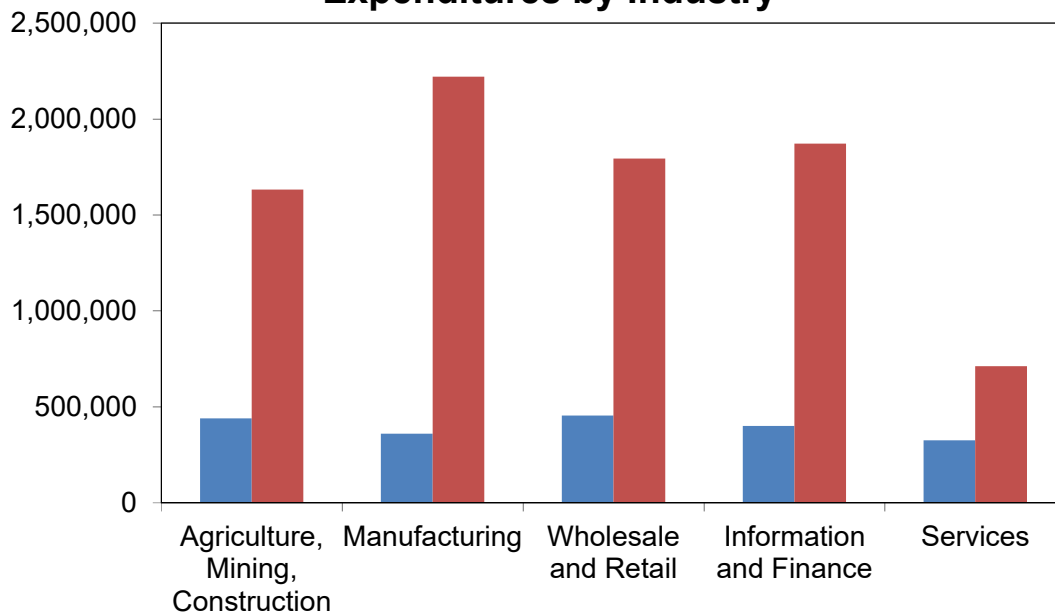Table 2: Top Firms By Lobbying Expenditures

Rank	Company Name	Total Spent on Lobbying 1998-2015 ($m)
1	General Electric	578
2	Lockheed Martin	399
3	Verizon	375
4	Boeing	348
5	AT&T	310
6	Northrop Grumman	301
7	Pfizer	289
8	Exxon Mobil	270
9	PG&E	253
10	Altria Group	241

Notes: While there is some shuffling across the relative ranks in this list across years, there is stability in the set of top firms generally. The appendix lists the top 10 firms in each year of the sample.
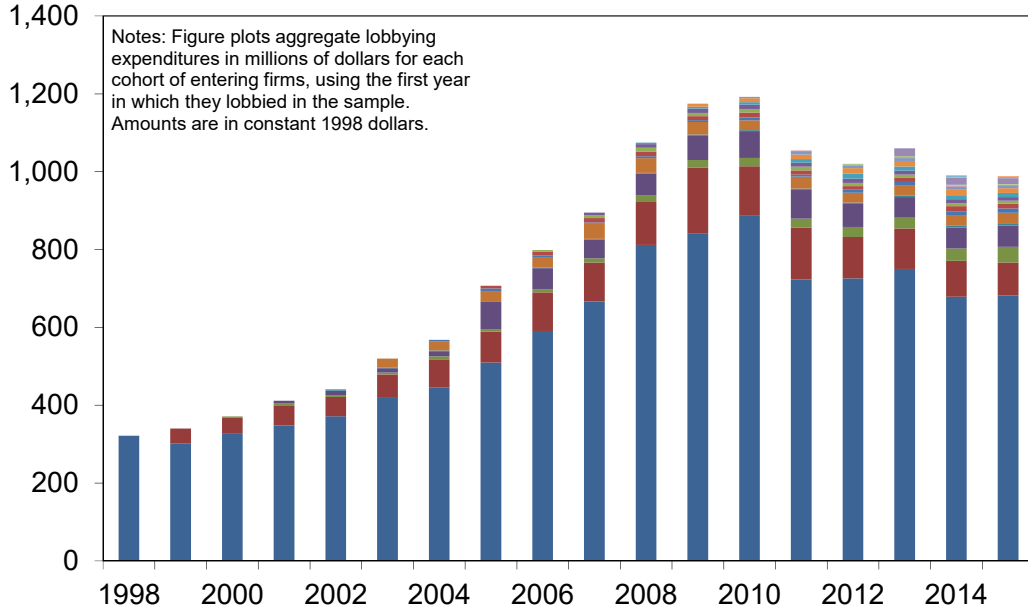
Fig. 1: Total Lobbying Expenditures Across Top Firms

Fig. 2: Mean vs. Median Lobbying Expenditures by Industry

Fig. 3: Aggregate Annual Expenditures by Entry Cohort

Notes: Figure plots aggregate lobbying expenditures in millions of dollars for each cohort of entering firms, using the first year in which they lobbied in the sample. Amounts are in constant 1998 dollars.

example, 302 million dollars were spent by the firms that were lobbying at the start of the sample and 38 million dollars were spent by the firms that were not lobbying in 1998 but began doing so in 1999. The main conclusion that comes out of these figures is that the firms that were lobbying at the start of the sample dominate both the year to year changes in aggregate expenditures as well as the long term rise in lobbying over time. Indeed, by 2015 69 percent of all lobbying expenditures came from those that were doing so at the beginning of the sample. There is some movement over time and even some of the firms in the top 10 that are listed in Table 2 enter later on in the sample, but this demonstrates that the intensive margin of lobbying is especially important.

4 Power Law Estimations

There is a famous story about Paul Samuelson, one of the great economists of the 20th century, who was asked by a physicist if there was anything in his field that was true and nontrivial. While Samuelson's answer, "the law of comparative advantage," satisfies both of these properties, it is also fundamentally a qualitative relationship. Here, we consider an answer to this question that is true, nontrivial, and importantly quantitative in nature. A variety of power laws in a range of fields have been established, including the size of cities, metabolic rate as a function of mass across animals, and the distribution of firm size.

To give a formal definition, a power law is a relationship of the type

$$Y = aX^{\beta} \tag{1}$$

where a is a constant, X and Y are two different variables, and β is referred to as the power law exponent. This is sometimes called a scaling law, since if the variable X is multiplied by a factor of 2 then Y changes by a factor of 2^{β}, such that β determines the level of scaling. A common form of a power law relates to an entity's rank within the population relative to its size. If we consider these variables with respect to lobbying, take logarithms of both sides, and include an error term that allows for deviations from this relationship or measurement error, we get the regression specification

$$\ln{(\text{rank})} = a_0 + \beta \ln{(size)} + \varepsilon. \tag{2}$$

Based on the work of Gabaix and Ibragimov (2011), we can also consider a specification where the dependent variable is $\ln{\left(\text{rank} - \frac{1}{2}\right)}$, which is an optimal modification in the case of small samples, which is less of a concern in our context. Similarly, in the spirit of Gabaix and Ibragimov (2008), we can consider specifications of the form

$$\ln{(\text{rank} - \gamma)} = a_0 + \beta \ln{(size)} + \lambda(\ln(size))^2 + u \tag{3}$$

where $\gamma \in \left\{0, \frac{1}{2}\right\}$. This allows for a slight deviation from a true power law while fundamentally considering the same relationship.

In Table 4 we consider each of these specifications in turn. The estimations are done across all of the years of the sample pooled together and the standard error are clustered by firm. Column (1) considers our baseline power law estimations and yields a scaling coefficient of -0.36. The R^2 value is 82 percent, which is a strong fit for such a simple specification. When we move to the specification with the adjusted dependent variable in column (2) we find similar results, reflecting the size of our sample. In column (3) we consider a specification in which we allow for an additional squared term as an explanatory variable as in equation (3). Here, not only do the coefficients change substantially, suggesting that these nonlinearities are important, the R^2 value rises substantially to 97 percent. As in the shift from column (1) to column (2), when we go from column (3) to column (4) and consider an adjusted dependent variable, the results are very similar.

In Figure 4 we plot the results from running the estimations in columns (1) and (3) of Table 4 for each year of our sample. This avoids aggregation issues that are present in Table 4, particularly around the issue of entry and exit into the lobbying. The R^2 values are remarkably stable across time and similar to the results for the sample as a whole. This is true for both of the specifications. In Figure 5, we similarly consider the coefficient and constant estimates for our baseline specification in column (1) of Table 4 for each year of our sample separately. Consistent with the results in Figure 4, we find that the parameter estimates are quite stable over time. These findings, along with those in the preceding figure, are perhaps surprising. A great deal changed with respect to lobbying expenditures over time during the course of our sample, with the total number of firms and the aggregate level of expenditures rising substantially over time, as seen in Figure 3. The results here suggest that the relationship is quite stable over time despite all of these changes.

5   Panel Estimations

In the previous analysis, we demonstrated that the distribution of lobbying expenditures is well approximated by a power law. Here, we consider the implications of this for the relationship between lobbying and firm size. The distribution of firm size has been shown to follow a power law as well, it would be natural to

Table 3: Power Law Estimations

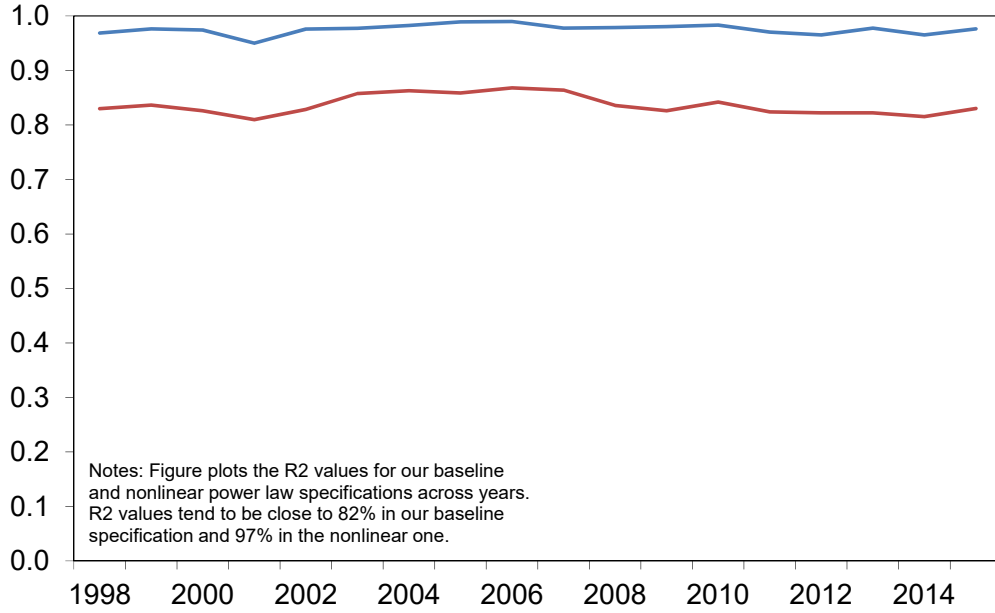|	Baseline	Baseline with Rank Adjustment	Nonlinear	Nonlinear with Rank Adjustment
	(1)	(2)	(3)	(4)
Log Lobbying Expenditures	-0.3637	-0.3670	1.2480	1.2861
	(0.0114)	(0.0121)	(0.0673)	(0.0789)
Squared Log Lobbying Expenditures			-0.0561	-0.0575
			(0.0025)	(0.0029)
Constant	10.8611	10.9024	-0.3832	-0.6300
	(0.1569)	(0.1655)	(0.4472)	(0.5238)
R^2	0.82	0.81	0.97	0.96

Notes: The table presents the results from estimating the power law relationships described in equations (2) and (3) of the text. In the estimations with adjustments in columns (2) and (4), we subtract 1/2 from the firm's rank before taking logarithms. In the nonlinear estimations, we include the squared value of the logarithm of lobbying expenditures as an additional explanatory variable. These adjustments are in the spirit of Gabaix and Ibragimov (2011) and Gabaix and Ibragimov (2008), respectively. Standard errors are in parentheses.

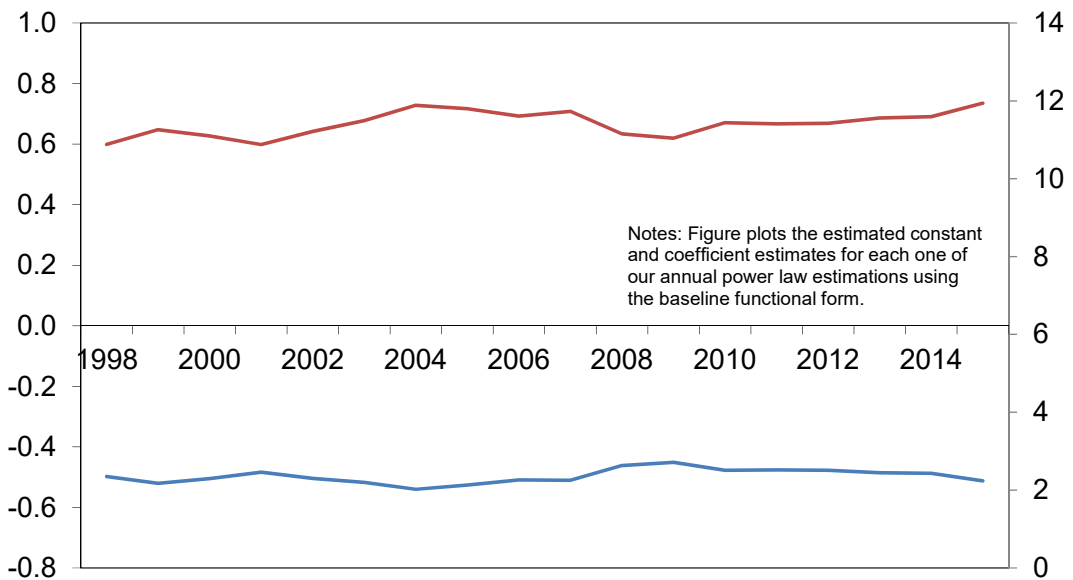Table 4: Power Law Estimations By Industry

	Agriculture and Mining	Manufacturing	Wholesale and Retail	Information and Finance	Services
Baseline Function Form					
Log Lobbying Expenditures	-0.33	-0.39	-0.35	-0.36	-0.28
	(0.02)	(0.02)	(0.03)	(0.02)	(0.02)
Constant	10.42	11.16	10.69	10.88	9.76
	(0.28)	(0.26)	(0.36)	(0.32)	(0.27)
R^2	0.85	0.80	0.86	0.82	0.91
Nonlinear Approach					
Log Lobbying Expenditures	1.03	1.40	1.10	1.17	0.82
	(0.10)	(0.11)	(0.09)	(0.12)	(0.03)
Squared Log Lobbying Expenditures	-0.05	-0.06	-0.05	-0.05	-0.04
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Constant	1.06	-1.37	0.57	0.14	2.37
	(0.66)	(0.71)	(0.63)	(0.83)	(0.22)
R^2	0.98	0.97	0.99	0.97	1.00

Notes: The table presents the results from estimating the power law relationships described in equations (2) and (3) of the text across industries. The results are presented at the one digit NAICS code level, with NAICS codes 1 and 2 as well as 6-8 considered as cohesive industries due to sample size considerations. Standard errors are in parentheses.

Fig. 4: Power Law R² Values Across Years

Notes: Figure plots the R2 values for our baseline
and nonlinear power law specifications across years.
R2 values tend to be close to 82% in our baseline
specification and 97% in the nonlinear one.

Fig. 5: Power Law Estimates By Year

Notes: Figure plots the estimated constant
and coefficient estimates for each one of
our annual power law estimations using
the baseline functional form.

find that these two are linked. As the extensive margin of lobbying has been considered in depth in prior work (e.g., Kerr, Lincoln, and Mishra 2015), here we focus on the intensive margin of lobbying and limit the sample to observations in which the firm lobbied during the given year. We then consider specifications of the form

$$lobbying_{it} = \delta_0 + \delta_1 \cdot size_{it} + X_{it}\beta + \mu_i + \mu_t + \varepsilon_{it}. \tag{4}$$

Here $lobbying_{it}$ are firm i's lobbying expenditures in year t, $size_{it}$ is a measure of firm size, X_{it} are a set of time varying firm specific control variables, μ_i are firm fixed effects, μ_t are year fixed effects, and ε_{it} captures the remaining unobservable factors that influence lobbying expenditures. In columns (1) – (3) of Table 5 we consider three different measures of firm size, sales, employment, and total assets. We intentionally choose the control variables in X_{it} to account for other aspects of firm operations other than size in order to estimate the true effect. Across our estimations, the standard errors are clustered by firm. In each column, we find statistically significant effects of size. For example, an increase in one thousand employees is predicted to raise lobbying expenditures by 7.7 thousand dollars ceteris paribus. R^2 values are roughly 75 percent across the estimations. Coefficients on the other time varying characteristics tend to be insignificant.

Table 5: Determinants of Lobbying Expenditures

	(1)	(2)	(3)
Sales	48		
	(11)		
Employment		7738	
		(2310)	
Assets			71
			(18)
Federal Taxes	30	143	112
	(654)	(646)	(630)
OIBD	-23	89	33
	(54)	(62)	(67)
Inventories	-14	-17	8
	(23)	(22)	(26)
Liabilities	8	11	-72
	(11)	(10)	(18)
R^2	0.75	0.75	0.75
R&D Firm	Yes	Yes	Yes
Firm Fixed Effects	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes

Notes: Estimations consider determinants of lobbying expenditures for firms with positive expenditures over 1998-2015. Lobbying is closely related to firm size, regardless of the measure used. OIBD stands for operating income before depreciation. Standard errors are in parentheses.

A number of studies have considered the implications of the link between firm size and other outcomes. For example, di Giovanni, Levchenko, and Mejean (2014) considers the implications of the fact that the firm size distribution is very skewed and the fact that that firm size is closely linked with firm exports to decompose how much of export variation comes from idiosyncratic firm level factors. Here, we undertake a similar exercise where we consider how much of the variation in the growth in annual firm level lobbying expenditures is due to industry-year effects and how much is due to factors that affect firms individually. To this end, we begin by considering the following regression specification

$$growth_{it} = \beta_0 + \phi_{it} + u_{it} \tag{5}$$

where $growth_{it}$ is the growth of firm i's lobbying expenditures in year t over the previous year, β_0 is a constant, ϕ_{it} are industry-year fixed effects using the one digit NAICS industry groupings described above, and u_{it} is an error term. Here the sample is restricted that firms that lobby in adjacent years and begins in the year 1999.

Given the results from this estimation, we then consider the variance of the residuals. These estimates contain all of the variation in individual firms' growth rates that are not explained by industry-year effects, such as the proclivity for certain industries to lobbying during election years. We then consider the ratio of the variance of the residuals to the variance of the growth rate across firms and years. The results is strikingly large at 98 percent. Thus, essentially all of the variation in the growth of firms' lobbying expenditures is attributable to factors that are specific to the firm and not to the behavior of the industry as a whole.

6 Conclusion and Future Directions

In this study we have considered the distribution of lobbying expenditures across firms and organizations and found that it is well approximated by a statistical power law. We then consider the implications of this, demonstrating that it helps explain the link between lobbying and firm size and for why most of the variation in the growth of firm level lobbying expenditures comes from idiosyncratic firm-specific factors. Our findings open up a large array of further questions of importance. First, qualitative work could shed light on both the reasons for this distribution of lobbying expenditures as well as its impact on policy outcomes. This would substantially deepen our understanding of the role of special interests in the American political system as well as more broadly in representative democracies. It would also be good to take this one step further and understand how those changed policy outcomes affect other things in the US economy and society, such as the misallocation of production across firms, the ability of the government to respond to business cycle events, and similar.

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8 Appendix

In this appendix we first present a list of the top 10 firms that lobbied in each year of our sample. This demonstrates that the set of firms at the top of the lobbying distribution, such as those listed in Table 2 of the main text, is quite stable over time. We then present an example of a lobbying report for Microsoft Corporation. These files provide the basis for the lobbying data that were obtained from the Center for Responsive Politics.

Appendix Table 1: Top Lobbying Firms By Year

1998	1999	2000
CITIGROUP	VERIZON COMMUNICATIONS	LOCKHEED MARTIN
FORD MOTOR	EXXON MOBIL	GENERAL ELECTRIC
LOCKHEED MARTIN	LOCKHEED MARTIN	VERIZON COMMUNICATIONS
BOEING	BOEING	BOEING
MICROSOFT	GENERAL ELECTRIC	MICROSOFT
GENERAL ELECTRIC	CITIGROUP	FORD MOTOR
AMERICAN INTERNATIONAL	MICROSOFT	NORTHROP GRUMMAN
EXXON MOBIL	ABBOTT LABORATORIES	BRISTOL-MYERS SQUIBB
NORTHROP GRUMMAN	UNITED TECHNOLOGIES	EXXON MOBIL
UNION PACIFIC	INTL BUSINESS MACHINES	CITIGROUP

2001	2002	2003
GENERAL ELECTRIC	BOEING	GENERAL ELECTRIC
NORTHROP GRUMMAN	GENERAL ELECTRIC	BOEING
BOEING	NORTHROP GRUMMAN	ALTRIA
VERIZON COMMUNICATIONS	MICROSOFT	VERIZON COMMUNICATIONS
LOCKHEED MARTIN	EXXON MOBIL	INTL BUSINESS MACHINES
MICROSOFT	VERIZON COMMUNICATIONS	LOCKHEED MARTIN
BRISTOL-MYERS SQUIBB	LOCKHEED MARTIN	NORTHROP GRUMMAN
RAYTHEON	JOHNSON & JOHNSON	MICROSOFT
ENTERGY	BRISTOL-MYERS SQUIBB	TOYOTA MOTOR CREDIT
SOUTHERN	MERCK &	CITIGROUP

2004	2005	2006
GENERAL ELECTRIC	GENERAL ELECTRIC	PG&E
MICROSOFT	AT&T	AT&T
VERIZON COMMUNICATIONS	VERIZON COMMUNICATIONS	GENERAL ELECTRIC
ALTRIA	ALTRIA	PFIZER
NORTHROP GRUMMAN	NORTHROP GRUMMAN	VERIZON COMMUNICATIONS
SOUTHERN	SOUTHERN	NORTHROP GRUMMAN
JOHNSON & JOHNSON	BOEING	LOCKHEED MARTIN
PFIZER	MICROSOFT	ALTRIA
BOEING	LOCKHEED MARTIN	AMGEN
LOCKHEED MARTIN	CHEVRON	SOUTHERN

Appendix Table 1: Top Lobbying Firms By Year (Continued)

2007	2008	2009
GENERAL ELECTRIC	PG&E	PFIZER
ALTRIA	EXXON MOBIL	GENERAL ELECTRIC
AMGEN	LOCKHEED MARTIN	LOCKHEED MARTIN
VERIZON COMMUNICATIONS	VERIZON COMMUNICATIONS	VERIZON COMMUNICATIONS
AT&T	GENERAL ELECTRIC	EXXON MOBIL
INTL BUSINESS MACHINES	ALTRIA	BOEING
LOCKHEED MARTIN	BOEING	CHEVRON
EXXON MOBIL	AT&T	AT&T
MICROSOFT	LILLY (ELI) &	ALTRIA
SOUTHERN	NORTHROP GRUMMAN	BERKSHIRE HATHAWAY

2010	2011	2012
PG&E	VERIZON COMMUNICATIONS	GENERAL ELECTRIC
GENERAL ELECTRIC	GENERAL ELECTRIC	AT&T
VERIZON COMMUNICATIONS	PFIZER	LOCKHEED MARTIN
LOCKHEED MARTIN	AT&T	VERIZON COMMUNICATIONS
UNITED TECHNOLOGIES	LOCKHEED MARTIN	NORTHROP GRUMMAN
FEDEX	CONOCOPHILLIPS	BOEING
AT&T	ALTRIA	SOUTHERN
BOEING	BOEING	PFIZER
CONOCOPHILLIPS	NORTHROP GRUMMAN	AMGEN
CHEVRON	WAL-MART STORES	UNITED TECHNOLOGIES

2013	2014	2015
NORTHROP GRUMMAN	GENERAL ELECTRIC	GENERAL ELECTRIC
BOEING	BOEING	BOEING
LOCKHEED MARTIN	AT&T	LOCKHEED MARTIN
GENERAL ELECTRIC	UNITED TECHNOLOGIES	AT&T
PFIZER	LOCKHEED MARTIN	UNITED TECHNOLOGIES
AT&T	DOW CHEMICAL	CVS HEALTH
VERIZON COMMUNICATIONS	SOUTHERN	ALTRIA
GENERAL DYNAMICS	VERIZON COMMUNICATIONS	FEDEX
UNITED TECHNOLOGIES	FEDEX	SOUTHERN
EXXON MOBIL	CHEVRON	AMGEN

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LOBBYING REPORT

Lobbying Disclosure Act of 1995 (Section 5) - All Filers Are Required to Complete This Page

1. Registrant Name **Microsoft Corporation**	

2. Registrant Address ☐ Check if different than previously reported
Address **1401 Eye Street, NW**   Suite **500**
City **Washington**   State/Zip (or Country) **DC 20005**

3. Principal Place of Business (if different from line 2)
City **Redmond**   State/Zip (or Country) **WA 98052**

4. Contact Name **Karin Gess**	Telephone **(202) 263-5900** E-mail (optional) **kgess@microsoft.com**	5. Senate ID # **25204-12**
7. Client Name ☒ Self		6. House ID # **31174000**

TYPE OF REPORT 8. Year **2005**   Midyear (January 1-June 30) ☒   OR   Year End (July 1-December 31) ☐

9. Check if this filing amends a previously filed version of this report ☐

10. Check if this is a Termination Report ☐ >> Termination Date _____   11. No Lobbying Activity ☐

INCOME OR EXPENSES - Complete Either Line 12 OR Line 13

12. Lobbying Firms	13. Organizations
INCOME relating to lobbying activities for this reporting period was:	**EXPENSES** relating to lobbying activities for this reporting period were:
Less than $10,000 ☐	Less than $10,000 ☐
$10,000 or more ☐ >> $ _____ Income (nearest $20,000)	$10,000 or more ☒ >> $ **$4,540,000.00** Expenses (nearest $20,000)
Provide a good faith estimate, rounded to the nearest $20,000 of all lobbying related income from the client (including all payments to the registrant by any other entity for lobbying activities on behalf of the client).	14. REPORTING METHOD. Check box to indicate expense accounting method. See instructions for description of options. ☐ Method A. Reporting amounts using LDA definitions only ☐ Method B. Reporting amounts under section 6033(b)(8) of the Internal Revenue Code ☒ Method C. Reporting amounts under section 162(e) of the Internal Revenue Code

Signature _____   Date **8/12/2005**

Printed Name and Title **Jack Krumholtz - Managing Dir. of Federal Gov't Affairs**   Page 1 of 19

Registrant Name: __Microsoft Corporation__

Client Name: __Microsoft Corporation__

LOBBYING ACTIVITY. Select as many codes as necessary to reflect the general issue areas in which the registrant engaged in lobbying on behalf of the client during the reporting period. Using a separate page for each code, provide information as requested. Attach additional page(s) as needed.

15. General issue area code __IMM____ (one per page)

16. Specific Lobbying issues

        H-1B visas
        L-1 visas
        Program Electronic Review Management System (PERM) regulations

17. House(s) of Congress and Federal agencies contacted   ☐ Check if None

        Department of Commerce
        Department of Labor
        Executive Office of the President
        House of Representatives
        Senate

18. Name of each individual who acted as a lobbyist in this issue area

Name	Covered Official Position (if applicable)	New
Buckner, Marland		No
Corley, Scott		Yes
Gelman, Matt		No
Houton, James		No
Ingle, Ed	White House	No
Krumholtz, Jack		No
Otto, Lori	Senate Republican Policy Committee	No

19. Interest of each foreign entity in the specific issues listed on line 16 above   ☒ Check if None

Signature _____ Date __8/12/2005__

Printed Name and Title __Jack Krumholtz - Managing Dir. of Federal Gov't Affairs__   Page 10 of 19